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C O N F I D E N T I A L ANKARA 001692

SIPDIS

DEPARTMENT FOR S/EEE RICHARD MORNINGSTAR

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TAGS: [ENRG](#) [EPET](#) [PREL](#) [TU](#)

SUBJECT: SCENESETTER FOR SPECIAL ENVOY MORNINGSTAR: FOURTH U.S.-TURKEY ENERGY WORKING GROUP MEETING

REF: ANKARA 1566

Classified By: Amb. James Jeffrey for reasons 1.4 (b,d).

SUMMARY

1. (C) Over the past several months, Turkey has been actively exploring its energy options--from Azerbaijan and Russia to Iran and Qatar (reftel). As the GoT prepares next steps in several areas of its energy relations, your bilateral meeting with Energy Minister Yildiz and the fourth round of the U.S.-Turkey Energy Working Group will be good opportunities to remind Turkey of key points of concern for the U.S. and the international community.

POINTS TO RAISE

2. (C) You should raise the following points during the Working Group meeting:

--Conclusion of a fair, transparent gas pricing and transit agreement with Azerbaijan will jump start the Southern Corridor and help with Azeri-Armenian relations. The Turks understand the urgency and, by all indications, are serious about reaching an agreement soon. Encourage them to identify the specific areas in which we can help the process. (para 4)

--Development of Iraq's energy sector is a shared priority for the U.S. and Turkey. Expect to hear ideas of how to deepen our cooperation in working toward this goal. (para 7 and 8)

--Turkey should be cautious of the Iran Sanctions Act as it considers potential Turkish Petroleum Company (TPAO) investment in Iran's energy sector. (para 9)

--The U.S. has a sincere interest in having Turkey choose the best possible technology to meet its needs for nuclear power generation. (para 10)

WATCH OUT FOR

3. (C) The Turks are likely to raise the following points:

--Further assurances that negotiations with the Azeris will be concluded soon without any concrete progress toward doing so. (para 4)

--Interest in acting soon to secure an oil and/or gas field in northern Iraq. There is some concern in the GoT that Turkey is missing out on opportunities while waiting for passage of the Iraqi Hydrocarbons Law. (para 7 and 8)

--Expectation that some Iranian gas deals will be excluded from U.S. sanctions because Europeans need the gas and because the deals would be useful as a bargaining chip in U.S.-Iranian negotiations. (para 9)

Caspian Gas

14. (C) For many months the Turks have been telling us they are close to reaching agreement with Azerbaijan on Shah Deniz gas pricing and transit. The increased specificity with which they have made this claim in recent weeks leads us to believe it is now more than just wishful thinking. All of the officials with whom we have spoken recently have stressed that they understand the urgency of concluding this deal, and most have expressed optimism that it will happen soon. Energy Minister Yildiz told Amb. Jeffrey and Mark Parris a delegation would travel to Baku for further negotiations the week of November 23, and he was hopeful significant steps would be taken before PM Erdogan's December 7 visit to Washington. For the first time, Yildiz said Turkey may be flexible on price in order to reach agreement. He has traveled to many potential supplier countries in the past several months and has concluded that no other deals can go ahead until the agreement with the Azeris is decided. Other officials have told us PM Erdogan wants an Azeri deal in hand for his next visit to Moscow, expected sometime later this year or in early 2010.

15. (C) Turkish interest in Turkmen gas remains strong. Hakki Akil, the newly appointed deputy undersecretary for economic affairs at MFA, believes the Turkmen now realize they need a third alternative--other than Russia and China--for gas exports, and they may decide Turkey and Europe are that alternative. On October 26 Turkey and Iran signed a memorandum of understanding that included transit of Turkmen gas through Iran to Turkey, reviving a decade-old proposal. The item comprises just a couple sentences in the MOU, however, and includes no detail. MFA officials have told us Iran is not their preferred route, and some are skeptical Iran would allow Turkmen gas to transit if it cannot export its own gas to Turkey. In a meeting with econ counselor November 2, TPAO President Mehmet Uysal speculated a swap would be arranged: Iran would import Turkmen gas in the north and export Iranian gas to Turkey from the south, although MFA officials maintain their preference remains for Turkmen gas to transit the Caspian. The Turks are exploring options to do so without breaching the territory demarcation dispute.

Domestic Factors

16. (SBU) Although supply for the domestic market continues to be the top objective in Turkey's energy dealings, the country has seen a significant drop in demand for gas due to the economic crisis and the rise in prices as the automatic pricing mechanism has taken effect over the past year. This fall in demand, combined with deficiencies in the State Pipeline Company's (BOTAS's) infrastructure, have left Turkey facing sizable take-or-pay obligations--as high as USD 2 billion for 2009 and potentially reaching a cumulative 14 billion cubic meters (USD 3.5 billion assuming an average price of USD 250/thousand cubic meter) in 2010, according to some sector analysts.

Iraq

17. (C) Turkish government and industry representatives repeatedly indicate that Iraqi energy is a priority. In a November 18 meeting, Yildiz stressed to the ambassador that Turkey wants a field in Iraq, preferably from the central government. He noted that the private sector, however, is very anxious to go into northern Iraq and many feel Turkey is being excluded from some of the best offerings because it is not dealing now with Erbil. (Note: Although Yildiz did not offer details, he most likely meant the GoT wants a field in Iraq for Turkish Petroleum Company (TPAO), as it was the only Turkish company found eligible to bid on Iraqi tenders.)

18. (C) The Turks realize that development of a national gas system in Iraq would help Turkey, as it would address infrastructure development and determine Iraq's own energy needs, thereby clarifying export potential. MFA officials have indicated they would like to share some ideas with us at the Energy Working Group meeting about deepening our cooperation on Iraqi energy development. We have indicated we would be receptive to their suggestions.

Iran

19. (C) In November 2008, Turkey and Iran signed a one-year memorandum on energy. In October this year, they agreed to

extend the MOU by three months to mid-February. The MOU covers three items: transit of Turkmen gas (mentioned above), import of Iranian gas for Turkish and European markets, and TPAO development of South Pars gas field blocks. The three-month extension was made to allow more time for TPAO and Iran to come to agreement on details of the third item. Uysal, however, has low expectations of reaching agreement but told us TPAO will continue the talks at the GoT's request. Uysal also told us that both the Iranians and the Europeans expect the South Pars gas field will be exempt from U.S. sanctions because Europe needs the gas and because a deal could be a useful bargaining chip in the U.S.-Iranian negotiations. You should dispel this assumption if raised.

Nuclear Tender

¶10. (C) With the now final decision to cancel the nuclear tender won by the Russian-led consortium, the GoT is preparing to tender two nuclear plants at the same time, in Akkuyu and Sinop. Yildiz told the ambassador they would

expedite the tenders, as he wants the projects to begin in ¶2010. The ambassador told Yildiz we want Turkey to choose the best technology for its needs, whichever company provides it. In prior conversations, Energy Ministry officials have told us any new tender would have a public-private structure, completely different from the canceled tender. When asked by the press about the new tenders, Yildiz said, "let's not call it a 'tender process,' but a 'process.'" According to Faruk Demir, an energy sector advisor close to the government, such comments may allude to a plan whereby the GoT would create a new public nuclear power company that would invite various foreign private companies to take part in joint projects.

Renewables

¶11. (C) Draft legislation currently in parliament would amend the existing renewable energy law to include higher and differentiated feed-in tariffs for plants that go into operation before the end of 2015. The parliament is not expected to pass the legislation this year, however, and Deputy PM Babacan has raised objections to the overall cost of the legislation--particularly the solar tariffs--both for public finances and for the GoT's overall aim of lowering energy costs in Turkey. Analysts expect the solar tariffs will be revised downward, likely to levels too low to spur investment, but they do not expect significant changes to the other tariffs proposed in the current draft.

JEFFREY

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